

Quarterly Report Summary

April 1, 2007 to June 30, 2007

Smaller Agencies Need Administrative Assistance

The Department of Minority Business Enterprise and the Virginia Board of Accountancy are two audits that highlight the need for the Commonwealth to provide strong central administrative support to smaller agencies. The on-going cost and the need for consistent compliance with state fiscal, personnel, and information technology needs are normally beyond the staffing capability of most smaller agencies. (pages 1 to 3)

Budget Controls and Non-general Fund Revenue Forecasting

To increase budget transparency, the Commonwealth will need to examine and change its accounting processes for showing budget and appropriation information as discussed in the Budget and Appropriation Processing Control System report. These changes may also require changes in the Code of Virginia and the process for developing and enacting the Appropriation Act. The Non-general Fund Revenue Forecasting report is an interim report discussing the process of forecasting these revenues. (pages 4 to 5)

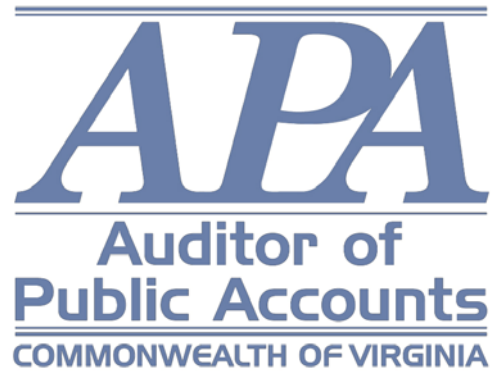
Selected Systems Development Projects

The systems development projects included in this review had an estimate value of over \$475 million. This report also includes our first status report on the Virginia's Enterprise Application Project with an estimated cost of roughly \$300 million, and may take seven years to complete. (pages 5 to 7)

Other items

Our follow-up on the Department of Game and Inland Fisheries found they had corrected most items noted earlier. (page 7)

This Quarterly Report Summary includes reports that may be of special interest to the members of the Commission. The summaries do not include all findings within a report or all reports with findings. We will be happy to provide you, any reports in their entirety or you can find all reports listed in this document at our website <http://www.apa.state.va.us/reports.htm>. We welcome any comments concerning this report or its contents.



- TABLE OF CONTENTS -

Department of Minority Business Enterprise	1-2
Virginia Board of Accountancy.....	3
Review of the Budget and Appropriation Processing Control System.....	3-4
Review of Non-General Fund Revenue Forecasting Process.....	4-5
Semi Annual Highlights of Selected Systems Development Projects	5-7
Department of Game and Inland Fisheries.....	7
SUMMARY OF REPORTS ISSUED.....	8-11

Department of Minority Business Enterprise

for the period February 1, 2006, through January 31, 2007

Risk Alert and Efficiency Issue

During the course of our audits, we encounter issues that are beyond the corrective action of only management and also require the action of either another agency, outside party, or the method by which the Commonwealth conducts its operations. We feel that these practices or conditions represent a risk to the Commonwealth.

Improve Service Arrangements Between Agencies

The Auditor of Public Accounts has advocated that smaller agencies, which do not have the resources or staff, use larger agencies for business functions, such as accounting, budgeting, information security or personnel resources. These arrangements allow the smaller agencies to concentrate on providing program services and eliminate unnecessary personnel costs and resources dedicated to administrative functions.

During an audit, we review the arrangements between agencies and the internal controls surrounding financial transactions, payroll, fringe benefits, and information security. We have found circumstances where these arrangements are not providing or improving internal controls. In some circumstances, we have found that the arrangement may contribute to actually weakening internal controls.

Smaller agencies do not have the staff expertise or resources to process financial transactions, personnel and payroll, procurement, and other administrative processes, such as implementing an adequate information security program, and maintain adequate separation of functions for basic internal controls. Loss of one person can, and does in many of these agencies, compromise the internal control structure and knowledge base needed to handle key transactions and duties. Therefore, the use of larger agencies with sufficient staff and resources provides needed internal controls and management oversight of public resources.

Further, change in agency leadership may result in having leaders without knowledge of state processes, standards, regulations, and laws. Agency leadership without an understanding of this essential information could enter into agreements or contracts that are not in the best interest of the agency or the Commonwealth.

In many cases, the service arrangements are ad hoc agreements to provide services where neither the service provider nor the agencies have a clear understanding of what they need. The intended purpose of these arrangements is to provide expertise, oversight, and direction, where small agency management may neither possess nor understand the importance of internal controls or have the necessary financial management expertise.

Our audits have indicated that in some circumstances these service arrangements are providing no oversight or internal controls for the smaller agency. The service providers are simply processing the paperwork without any managerial review of the transactions. This situation does not improve the Commonwealth's or the smaller agencies' handling of state funds and compliance with applicable state policies and procedures.

In addition, our review of information security in the Commonwealth revealed that most small agencies do not have the resources, expertise, or funding to develop and implement adequate information security programs that protect their critical and sensitive data.

We believe that the Secretaries of Administration, Finance, and Technology should work with the Departments of Accounts, General Services, Planning and Budget, Human Resource Management, and the Virginia Information Technologies Agency (VITA) to develop and implement an administrative agreement for all back office operations, including information security, managerial oversight and internal controls, for agencies requiring administrative assistance or establish a central back office operation to provide these functions. The current arrangements do not provide a cohesive process which addresses the true operations of an administrative unit. For example, purchasing depends on budget availability, understanding of state contracting practices, contract management, and ultimately the payment and recording of the purchase.

We believe that the Secretaries need to address the needs of smaller agencies as an arrangement of outsourcing the entire administrative function rather than the paper processing of groups of transactions. We believe that this approach will improve the operational efficiency of these agencies. However, we do not believe that the Commonwealth will recognize any saving in either personnel or cost, since the smaller agencies are using marginal resources with marginal results.

We also recognize that leaders of the smaller agencies will resist this type of change, however, the Commonwealth will greatly improve its internal controls and gain risk management benefits.

Internal Control Findings and Recommendations

Update on Prior Year Recommendations

The Department of Minority Business Enterprise has made progress in improving its operations and management has taken a number of actions to address the internal control issues previously reported, however, the current structure within which management operates and limited resources restricts their ability to fully resolve the matters raised. As noted above, we believe that this agency and others having limited funding and other administrative resources can not achieve resolution of their internal control findings without resolution of the previously discussed issue.

We therefore continue to find many of the same problems with internal control and compliance that we discussed in prior reports. Internal control is a framework designed to provide reasonable assurance over the reliability of financial resources, effectiveness, and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations.

As of October 2006, General Services assumed responsibility for the fiscal functions of the Department. Although we have noted some improvements in the Department's fiscal operations since General Services took on these responsibilities, internal control weaknesses outlined in previous reports continue to exist. The Department must work with General Services as well as other service agencies, as discussed in the "Risk Alert and Efficiency Issue" section above, to establish arrangements that outsource the entire fiscal function, rather than simply outsourcing transaction processing.

The Department's Director has responsibility for understanding and ensuring the agency's systems, processes, and procedures are sufficient to provide the Department with adequate internal controls. However, the Department, similar to many smaller agencies, does not have resources to provide an appropriate level of administrative assistance; and therefore they out-source their fiscal functions to service providing agencies as necessary. Under this arrangement, the Department shares the responsibility with the service agencies to ensure that adequate oversight and controls over financial transactions exist.

Virginia Board of Accountancy
for the year ended June 30, 2006

Comply with the Commonwealth's Security Standard

We found that the Board, like many smaller agencies in the Commonwealth, has an inadequate information security program. The Board is taking the following corrective action to bring their information security program into compliance with the Commonwealth's security standards:

- establishing a Security Awareness Training Program;
- completing a Business Impact Analysis;
- modifying the Board's Risk Assessment to include the following; listing of resources, which require protection against unavailability, unauthorized access, or disclosure and the types of safeguards required to address their defined risks;
- modifying the Board's Business Continuity Plan to include the following; sufficient information regarding essential business functions or IT systems needed to continue operating in the event of disruptions or ways to minimize the effect of disruptions;
- modifying the Board's Disaster Recovery Plan to include enough specific information to recover from a disaster affecting the network; additionally, the plan will include a prioritized list for restoring services; and
- establishing Data Security Policies and Procedures.

We commend the Board for the actions that it is taking to address the issues raised. Based on the review of the plan, the actions will address the security issues as they exist today; however, we believe the Board needs to consider the long-term commitment that maintaining this program will place on the staff and future resources.

Technology, information needs, and threats to these resources are an ever changing environment which requires constant update and review. Considering the Board only employs nine staff members, the Board may find it difficult to implement and maintain an adequate information security program. The Board should consider evaluating the different options available for managing and securing their information technologies such as: contracting with a vendor or another agency to manage their information systems, or joining a consortium or partnering with other smaller agencies to collectively manage the group's information systems.

Review of the Budget and Appropriation Processing Control System
for the year ended June 30, 2006

Through the Appropriation Act (Act) and general law, the Governor and the Department of Planning and Budget (Planning and Budget) have certain statutory authority to increase, decrease, or transfer funds and personnel positions during the fiscal year within constraints of the Act. Planning and Budget commonly refers to these budgetary changes as administrative adjustments. Planning and Budget operates a budget system to ensure that agencies conduct their activities within the fund limitations provided in the Appropriation Act, and in accordance with gubernatorial and legislative intent.

Overall, administrative adjustments to the 2005 Acts of General Assembly, Chapter 951 budget resulted in a \$3.7 billion increase in the operating budget, a 12 percent increase. These adjustments result for a variety of reasons, some of which are necessary to process General Assembly actions, and we provide more detail on the adjustments by type in this report. These adjustments are within the authority granted to Planning and Budget and the Governor by the General Assembly through the Appropriations Act. As shown in the table below, administrative adjustments resulted in the appearance of close to a \$3 billion decrease in the general fund budget and a \$6.7 billion increase in the non-general fund budget.

Fiscal Year 2006 Summary of Operating Budget Adjustments

	<u>General Fund</u>	<u>Non-General Fund</u>	<u>Total</u>
Original Budget, Chapter 951	\$14,632,160,021	\$16,957,490,348	\$31,589,650,369
Subsequent legislative amendments	483,591,611	(77,212,678)	406,378,933
Administrative adjustments	<u>(2,921,063,614)</u>	<u>6,669,682,713</u>	<u>3,748,619,099</u>
Adjusted budget, June 30, 2006	<u>\$12,194,688,018</u>	<u>\$23,549,960,383</u>	<u>\$35,744,648,401</u>
Net increase/decrease in original budget	\$ (2,437,472,003)	\$ 6,592,470,035	\$ 4,154,998,032

Our analysis of these administrative adjustments, as well as our experience maintaining budgeting and accounting information on our Data Point website, have brought several budget transparency issues to our attention which we have included in this report. These issues affect the ability of the average citizen to understand where and how the state is using its resources. The most significant of these issues is the transfer of General Funds to other funds that occurs after the budget's approval for programs such as Personal Property Tax Relief. This process makes it difficult to follow the actions of the Governor and General Assembly from the approved budget to the accounting reports. Further, except for individuals familiar with the budget and accounting process, there is a loss of transparency of over \$3.1 billion of general funds.

Addressing these budget transparency issues will involve both executive and legislative leadership, and it is important that resolution of these issues occurs before the Commonwealth invests substantial resources in the Enterprise System initiative. Two of the first applications of the Commonwealth's Enterprise System are the Budget Development and Execution, and General Ledger Accounting modules. The importance of tracking all General Funds from their collection to disbursement should be a high priority of the new system.

Review of Non-General Fund Revenue Forecasting Process

The Commonwealth divides its revenue sources into two broad categories of funds: general funds and non-general funds. General funds are largely the general taxes paid by individuals and businesses. The Governor and General Assembly determine the use of these funds. Conversely, non-general funds represent a variety of revenues sources, which either the Virginia Constitution or legislation has specifically earmarked to fund certain programs or activities.

More than half of the operating budget of the Commonwealth in any given fiscal year is made up of non-general funds. This review focuses on the revenue forecasting process over non-general funds and will have two phases. This first phase report includes our work to gain an understanding of the forecasting

process, including the significant types of non-general fund revenues and who does the forecasting. We also surveyed a sample of agencies to gain an understanding of their procedures and compared them to best practices.

While all agencies and universities must develop revenue forecasts for non-general funds as part of the budget development process, there are certain agencies that are central to the process. These agencies include the Department of Planning and Budget, the Department of Taxation, and the State Council for Higher Education in Virginia.

We found that most of the agencies we surveyed said they followed the basic elements of best practices when preparing their non-general fund revenue estimates. While the overall processes appear consistent with established practices, we did identify the following recommendations Planning and Budget as well as the Secretary of Finance should consider to strengthen the non-general fund revenue forecasting process.

- Consider whether the current forecasting process requires change to allow agencies to update their original revenue forecasts during the year as they become aware of changing circumstances.
- Consider implementing a more comprehensive statewide mechanism for monitoring and reporting on estimated and actual non-general fund revenues throughout the year.
- Prepare updated documentation, referred to as a revenue manual, on significant non-general fund revenue sources and the overall forecasting process.
- Consider providing more guidance to agencies on methodologies and best practices to use when forecasting their non-general fund revenues.

As discussed above, this review will include a second phase with a final report issued by January 2008. The second phase of our review will include a more detailed review of forecasting procedures at Planning and Budget and the individual agencies. We will select a sample of agencies and verify they are following the forecasting procedures outlined in this report. The final phase will also include a more detailed analysis of agency estimates and actual revenue collections, and how the budget development process uses this information.

Semi Annual Highlights of Selected Systems Development Projects

This report is our review of Commonwealth systems development projects totaling over \$475 million in budget. Included is our first status report on the Virginia's Enterprise Application Project, which has an estimated cost of roughly \$300 million and may take seven years to complete.

The State Board of Elections is concluding its implementation of the Virginia Election and Registration Information System, which satisfies requirements of the federal Help American Vote Act. Additionally, the State Police is undertaking the installation of an administration system without proper approval and a systems project plan.

The systems development projects listed below are those projects we are actively auditing. While this list is not inclusive of all current projects across the Commonwealth, it does represent those that we consider of the highest importance due to risk, budget, phase, and/or impact of the system.

<u>Agency</u>	<u>System Name</u>	<u>System Budget</u>
Corrections	VirginiaCORIS – Phases II and III	\$14,500,000
Motor Vehicles	Customer-centric, Service-oriented, State-of-the-Art, Secure, and Intelligent (CSI)	34,170,700
Rehabilitative Services	Integrated Case Management (ICM)	5,084,691
Transportation	Roadway Network System (RNS)	7,308,122
Motor Vehicles	Traffic Records Electronic Data Systems (TREDS)	5,300,000
Longwood University	Banner, Longwood's Implementation Strategy for Success (BLISS)	7,359,421
Office of the Governor	Enterprise Applications Public Private Partnership	300,000,000
Taxation	Virginia Tax Online (VTOL) Upgrade	1,774,595
University of Virginia	Student System Project	15,000,000
University of Virginia Medical Center	Integrated Healthcare Information Management System (IHIMS)	53,800,000
Virginia Commonwealth University	Administrative Re-engineering through Integrating Electronic Services (ARIES)	11,400,000
Virginia State University	Project New Horizons	5,947,291
Virginia Employment Commission	Virginia Workforce Network Information System (VWINS)	3,500,000
Community Colleges	Administrative Information System	8,912,836
Forestry	Integrated Forest Resource Information System – Forest Protection and Mobile Computing	<u>1,204,540</u>
Total Budget		<u>\$475,262,196</u>

We have not repeated all projects from our December 2006 progress report because some of the projects may have ended or been placed on hold. For example, since our last report, the Department of Health's Electronic Health Record System is permanently on hold. The Joint Commission on Technology and Sciences formed an Electronic Medical Record advisory committee and Governor Kaine formed a Health IT Council to examine issues and make recommendations regarding electronic health and medical records.

The CSI Project at DMV is the new name for a project previously named Integrated Systems Redesign. The Jamestown-Yorktown Foundation's Ticketing Improvement System is complete and closed. The Virginia Election and Registration Information System (VERIS) at the State Board of Elections went live in February 2007; the project is complete and more information is in the 'Highlights of Selected Systems Development Projects' section. The reader can find historical information on this and other projects in our previous Interim Progress Reports available at www.apa.virginia.gov.

Department of Game and Inland Fisheries

Our audit of the Department of Game and Inland Fisheries (Game) focused primarily on policies and procedures in the areas noted in our prior Game audit report and areas of concern in the Department of the State Internal Auditors' 2005 fraud investigation. Specifically, we reviewed policies and procedures and tested for their compliance in the areas of personal services, charge card purchases, equipment inventory, procurement, travel, vehicles, video production, uniforms, equipment field testing, and Board governance.

Overall, we found that:

- Game has established adequate written policies and procedures to address prior deficiencies that comply with established Commonwealth policies and procedures and other relevant laws and regulations;
- Game has controls, which they follow, to monitor compliance with their policies and procedures;
- The revenues and expenses as reported in the Commonwealth Accounting and Reporting System are materially correct; and
- Game has adequate policies and procedures for each of their major information systems.

Our report includes several recommendations for Game to continue to enhance their processes and controls.

SUMMARY OF REPORTS ISSUED

The following reports on audit were released by this Office during the period April 1, 2007, to June 30, 2007. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

State Agencies and Institutions

Judicial Branch

Office of the Executive Secretary of the Supreme Court Of Virginia, Clerk of the Supreme Court, Clerk of the Court Of Appeals and the Judicial Inquiry and Review Commission for the period July 1, 2004 through June 30, 2006*

Independent Agencies

Virginia Office for Protection and Advocacy for the Year Ended June 30, 2006

Executive Departments

Administration

Department of Employee Dispute Resolution for the two-year period ending June 30, 2006*
Department of Minority Business Enterprises for period February 1, 2006, through January 31, 2007*
Human Rights Council for the two-year period ended June 30, 2006
Compensation Board Report on Audit for Fiscal Years Ended June 30, 2005 and 2006
Department of Charitable Gaming for the two-year period ended June 30, 2006
Department of Human Resource Management for the year ended June 30, 2006

Agriculture and Forestry

Department of Forestry for the two-year period ended June 30, 2006*
Virginia Department of Agriculture and Consumer Services and the Virginia Agriculture Council Report on Audit for the year ended June 30, 2006*

Commerce and Trade

Department of Mines, Minerals, and Energy for the two-year period ended June 30, 2006
Virginia Board of Accountancy Report on Audit for the year ended June 30, 2006*
Virginia Small Business Financing Authority for the year ended June 30, 2006

Education

Jamestown-Yorktown Foundation for the year ended June 30, 2006*
The Library of Virginia for the period July 1, 2004 through June 30, 2006*
Southwest Virginia Higher Education Center for the year ended June 30, 2006
State Council of Higher Education for Virginia Report on Audit for the Period July 1, 2004 through June 30, 2006
Radford University Report on Audit for year ended June 30, 2006*
University of Mary Washington for the year ended June 30, 2006*

Colleges and Universities

James Madison University for the years ended June 30, 2006 and 2005
George Mason University for the fiscal year ended June 30, 2006*
Virginia Military Institute for the year ended June 30, 2006
Virginia State University for the fiscal year ended June 30, 2006*

Finance

Review of the Budget and Appropriation Processing Control System Report on Audit for the year ended June 30, 2006*
Secretary of Finance for the year ended June 30, 2006*

Health and Human Resources

Department of Social Services Report on Audit for year ended June 30, 2006*

Natural Resources

Department of Game and Inland Fisheries for the Period April 1, 2006 through March 31, 2007*
Rappahannock River Basin Commission for the period July 1, 2005 to June 30, 2006
Potomac River Fisheries Commission for the year ended June 30, 2006

Public Safety

Department of Criminal Justice Services Report on Audit for the two-year period ended June 30, 2006*
Department of Fire Programs for the Two-Year Period Ended June 30, 2006*
Department of Correctional Education Report on Audit for the Two-Year Period Ended June 30, 2006*
Department of Corrections and Virginia Parole Board Report on Audit for the Year Ended June 30, 2006*

Technology

Wireless E-911 Services Board for the year ended June 30, 2006

Special Reports

Progress Report on Selected Information Technology Projects in the Commonwealth -- March 2007
Report on Collections of Commonwealth Revenues by Local Constitutional Officers for the year ended June 30, 2006
Review of Non-General Fund Revenue Forecasting Process Interim Report*
Report to the Joint Legislative Audit and Review Commission for the Quarter January 1, 2007 through March 31, 2007*

Clerks of the Circuit Courts

Cities:

City of Fredericksburg Clerk of the Circuit Court for the period January 1, 2006 through March 31, 2007
City of Hampton Clerk of the Circuit Court for the period January 1, 2006 to December 31, 2006
City of Portsmouth Clerk of the Circuit Court for the period January 1, 2006 through December 31, 2006
City of Suffolk Clerk of the Circuit Court for the period January 1, 2006 through December 31, 2006
City of Richmond Clerk of the Circuit Court —John Marshall for the period October 1, 2005 through September 30, 2006
City of Roanoke Clerk of the Circuit Court for the period January 1, 2006 through December 31, 2006
City of Winchester Clerk of the Circuit Court for the period January 1, 2006 through December 31, 2006

Counties:

County of Amherst Clerk of the Circuit Court for the period April 1, 2005 through December 31, 2006
County of Arlington Clerk of the Circuit Court for the period October 1, 2005 through December 31, 2006
County of Botetourt Clerk of the Circuit Court for the period October 1, 2005 through March 31, 2007
County of Carroll Clerk of the Circuit Court for the period October 1, 2005 through December 31, 2006
County of Gloucester Clerk of the Circuit Court for the period January 1, 2006 through December 31, 2006
County of Mathews Clerk of the Circuit Court for the period January 1, 2006 to December 31, 2006
County of Northumberland Clerk of the Circuit Court for the period October 1, 2005 through December 31, 2006
County of King and Queen Clerk of the Circuit Court for the period January 1, 2006 through December 31, 2006
County of Orange Clerk of the Circuit Court for the period July 1, 2005 through December 31, 2006
County of Pittsylvania Clerk of the Circuit Court for the period July 1, 2005 through December 31, 2006
County/City of Wise/Norton Clerk of the Circuit Court for the period October 1, 2005 through December 31, 2006
County of Amelia Clerk of the Circuit Court for the period October 1, 2006 through March 31, 2007
County of Charlotte Clerk of the Circuit Court for the period April 1, 2006 through March 31, 2007
County of Chesterfield Clerk of the Circuit Court for the period January 1, 2006 through December 31, 2006
County of Cumberland Clerk of the Circuit Court for the period January 1, 2006 through December 31, 2006
County of Greensville Clerk of the Circuit Court for the period October 1, 2005 through December 31, 2006

County of Montgomery Clerk of the Circuit Court for the period April 1, 2005 through
December 31, 2006

County of Prince William Clerk of the Circuit Court for the period April 1, 2006 through March 31, 2007

County of Washington Clerk of the Circuit Court for the period April 1, 2007 through April 30, 2007

County of Isle of Wight Clerk of the Circuit Court for the period January 1, 2006 through March 31, 2007

General Receivers

City of Alexandria for the period July 1, 2005 through June 30, 2006